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The Erosion of Southern Europe's Middle Classes: Debt, insecurity and the political economy of austerity

THEO PAPADOPOULOS and ANTONIOS ROUMPAKIS

Abstract

Our article examines the position of middle classes in the social reproduction of southern European (SE) political economies in light of the sovereign debt crisis. The first part analyzes the rise of SE middle classes in the 1980s and 1990s. The second part discusses the transformation of SE political economies after their entry in the European Monetary Union. The third part explores how the austerity measures adopted as a response to the sovereign debt crisis contributed to the further undermining of SE middle classes' income and employment security. We discuss how the new European economic governance challenges the politico-economic foundations of SE political economies by transforming them into de-facto 'consolidation states' (Streeck, 2013). Using EU-SILC data on disposable income we also demonstrate the differential impact of austerity measures. The erosion of SE middle classes accelerated post-crisis; however, the speed and depth of this erosion and its political fallout are not uniform.

Keywords:

Middle-class, Austerity, Crisis, Debt, South Europe

1. Introduction

The eruption of the global financial crisis and, subsequently, the sovereign debt crisis has generated a large number of empirical studies on how middle classes are faring in Europe and elsewhere, including southern Europe (Kochhar, 2017; Vaughan-Whitehead, 2016; OECD, 2015; Thewissen, 2015; Gornick and Jäntti, 2014; Dallinger, 2013; Bigot, 2012, 2011). Key themes in these studies are the long-term effects of rising income inequalities and increasing job polarization and, to a lesser extent, the negative impact of austerity and structural reforms upon their economic position. What has attracted less attention is how these developments have affected the middle classes'¹ role in the reproduction of southern European welfare capitalisms (for an exception see Petmesidou 2011); a role that was pivotal in the regimes' democratic legitimation and their integration in the European Union (Chilcote et al, 1990; Magone, 2003).

¹ There is a very wide range of approaches to defining and operationalizing 'middle class': income-based, wealth-based, occupation-based and perceptually/subjectively-based (for reviews see Vaughan-Whitehead et al., 2016; Atkinson and Brandolini, 2013; Banerjee, and Duflo, 2008). Their discussion is beyond the scope of this paper. However, to indicate the size of middle class we adopted Bigot and Müller's (2011:3) income-based definition: households with income between 70% and 150% of median adjusted household income. In terms of occupations we adopted Petmesidou's list of middle class socio-professional groups: "self-employed professionals, small business owners and craftspeople [...] white-collar workers in the private sector, sales personnel and service workers as well as civil servants [and employees in public enterprises]" (Petmesidou, 1998: 116).

Our article aims to contribute to this discussion. It is structured in three parts. The first part reviews the rise of middle classes in southern Europe in the context of the region's post-World War II politico-economic development, and its democratic consolidation in the context of European integration. The second part critically engages with Streeck's (2013) assertion of the rise of 'debt states' in Europe, in the light of southern Europe's incorporation into the European Monetary Union (EMU), and explores the significance of the rise of private debt prior to the eruption of the sovereign debt crisis. The third part discusses how the fiscal consolidation measures imposed by European and international lenders in the aftermath of the crisis contributed to the further erosion of middle classes. We discuss how the institutions and practices of the new European economic governance undermine the traditional politico-economic foundations of southern European welfare capitalisms by transforming into 'consolidation states' (Streeck, 2013). Using income data from EU-SILC (European Union Statistics on Income and Living Conditions) surveys we also demonstrate the differential impact of austerity measures across the income distribution and explore its variation between and within southern European countries. We conclude that the combined effects of these transformations have led to a deep, but not uniform, erosion of south European middle classes which, politically, is manifested as a crisis of democratic representation.

2. Democratic consolidation, European integration and the rise of middle classes in southern Europe

The term Southern Europe began to proliferate in the academic literature² in the early 1970s (Malefakis, 1992). According to Payne (1986) the term offered 'a useful comparative frame of reference for understanding common features of modernization in Italy, Spain, Greece and Portugal', countries which 'underwent similar changes along the path to political development and economic modernization, particularly in the late nineteenth and early twentieth centuries' (p.108). For the purposes of our article we focus on approaches and evidence that help us contextualize the post-World War II rise of middle classes in southern Europe until the region's incorporation into the European Monetary Union (EMU).

According to Streeck (2013) the emergence and growth of the middle class in the western world was inexorably linked to the creation of democratic welfare capitalisms, during the post-World War II period. It took place within the institutional context of what Streeck characterized as the post-war 'tax state': a term he adopted from Schumpeter to describe a form of capitalist nation-state 'predicated on the conciliation of market competition with the entitlements granted by the outcome of democratic elections and collective bargaining between organized labor and capital owners' (Feher, 2016:1). However, this state form and its corresponding social structure bear little resemblance to those that predominated in southern Europe during the post-World War II period. Drawing on Sappeli's work (1996), Rhodes described the postwar politico-economic milieu of the region as characterized by "late industrialization coupled with a state that was as interventionist as it was administratively weak [with] a low degree of political institutionalization, together with the disintegrating consequences of clientship" (Rhodes, 2015: 52). Against this backdrop, we argue that there are at least three fundamental differences in the post-war emergence of middle classes between southern and north-western welfare capitalisms in Europe.

First, southern Europe was originally integrated in the world economy as a set of semi-peripheral economies (for a critical review see Chilcote and Johnson, 1983; Chilcote, 1984; Chilcote et al, 1990) and, later, as a set of peripheral economies in the European economy (Simonazzi and Ginzburg, 2015). Historically, their competitiveness was based largely on the pursuit of low labor-costs while productivity was comparatively low (Papadopoulos and Roumpakis, 2013; Rangone and Solari, 2012). With the notable exceptions of Catalonia and the northern regions in Spain and Italy, the industrialization process was weak and rapid. Italy as a 'latecomer', and Spain, Portugal and Greece as 'late-latecomers' integrated as a periphery in a European economy already dominated by the 'first-comer industrializers' of the 'centre' (Simonazzi and Ginzburg, 2015: 106). By the early

² For an extensive review of southern Europe's discursive construction in historiography and social sciences up to the years prior to the sovereign debt crisis see Baumeister and Sala (2015: 21).

1990s - approximately a decade after the accession of Greece, Spain and Portugal to the European Economic Community - industrialization in southern Europe reached its peak (Table 1). Over the same period (1960-1990) employment declined in agriculture and expanded in the services' sector in equally spectacular pace. By the beginning of 21st century, southern European societies were completing their transition towards post-industrial socio-economic structures with services as the dominant sector of their economies (Table 1).

Table 1: Employment by activity (% of total employment) and self-employment in southern Europe, 1960-2015

		1960-68	1968-73	1981	1990	2000	2010	2015
Italy	Agriculture	28	20	13	9	5	4	4
	Industry	36	39	37	32	32	29	27
	Services	40	40	50	59	63	68	70
Greece	Agriculture	52	40	31	24	17	12	13
	Industry	20	25	29	26	23	20	15
	Services	28	34	40	50	60	68	72
Spain	Agriculture	33	27	19	12	7	4	4
	Industry	33	36	35	34	31	23	20
	Services	34	38	46	55	62	73	76
Portugal	Agriculture	39	30	26	18	13	11	8
	Industry	32	33	37	34	34	27	24
	Services	28	37	37	48	53	62	68

Source: Employment activity 1960-1973 data from Simonazzi and Ginzburg (2015: 110). Employment activity 1981-2015 data from World Bank (2017).

These rapid changes in the composition of economy and employment were accompanied by a similarly rapid process of urbanization, as internal migration from rural to urban areas accelerated. Between 1960 and 2010, urban populations in southern Europe as percentage of total population increased from 56% to 76% in Greece, from 59% to 68% in Italy, from 57% to 76% in Spain, and from 35% to 61% in Portugal (World Bank, 2017). Apart from their economic significance these processes had important cultural significance. According to Sapelli (1995:20), their rapidity contributed to the continuation of 'anthropological relationships typical of rural societies', allowing practices such as familial solidarity, reciprocity but also paternalism to continue.

Second, in southern Europe the state and, especially, the welfare system were used as sites of political patronage, under conditions of authoritarian rule or outright dictatorship. This was starkly different to the postwar experience of the rest of European welfare capitalisms, where, under conditions of representative democracy, social and employment rights gradually expanded to cover nearly all citizens. As southern European social security systems were predominantly organized along the Bismarckian principle of social insurance, those in full- time uninterrupted employment or those in protected professions were differentially privileged. Often, citizens of left political orientation or those with 'questionable' nationalistic credentials were excluded altogether (Petmesidou, 1991, 1996; Ferrera, 1996; Mingione, 1995). Moreover, in seeking electoral support and/or legitimation, successive administrations, authoritarian and democratic, resorted in exercising positive discretion - e.g. granting selectively rights and privileges to politically strong socio-occupational groups - or negative discretion - e.g. tolerating tax evasion practices. As a result, fragmented, fragile and unequal social security systems and ineffective tax systems became common institutional features of southern European welfare regimes (Petmesidou 1991; Rhodes, 1997).

Against this background, we maintain that the rise of middle class strata in southern Europe was only minimally associated with capitalist expansion, a 'tax state', or the achievements of organized labor under conditions of democratic capitalism. It had more to do with the postwar expansion of a particular type of interventionist state that was weak in terms of the political impartiality of its bureaucracy (Sotiropoulos, 2004), feeble in its commitment to universal welfare and open to the influence of the particularistic interests of powerful socio-professional groups. As Petmesidou (2011) put it, 'the sociohistorical constitution of the middle classes' across southern Europe shares many similarities:

In this region, late industrialization, a record of authoritarian regimes (and/or political instability) until late in the postwar period, and a configuration of rent-seeking statist-clientelistic practices of varying prevalence across the region scarcely favoured a politics of solidarity on collective welfare. [...] [A] social construction of problems in 'individualist' terms kept fragmentation in social protection high and supported a social exclusion risk-profile based on differential access to political credentials that allowed individuals, households and enterprises to benefit from the rent-yielding state mechanisms.

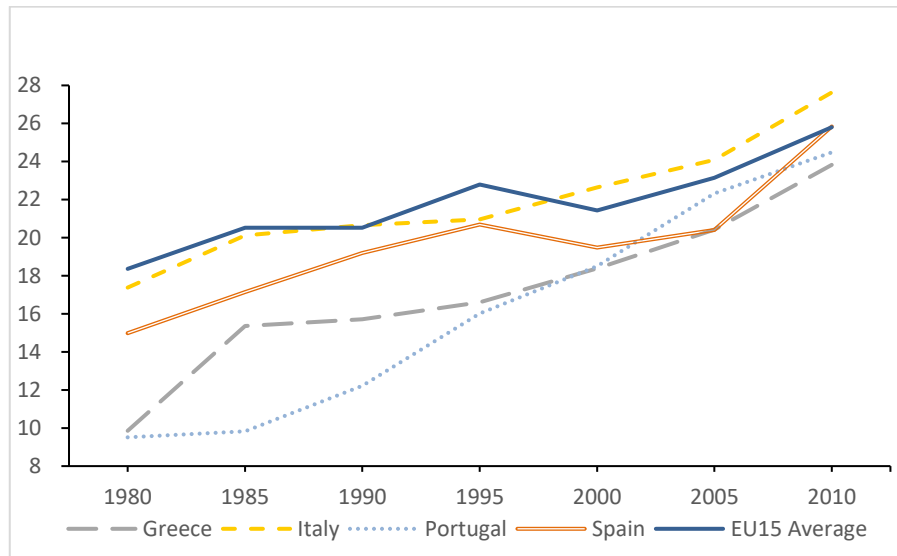
Petmesidou (2011: 225)

Italy aside, it was the post-dictatorship processes of democratic transition and consolidation in Greece, Spain and Portugal (Chilcote et al, 1990), and especially their accession to the European Economic Community in the 1980s that marked the beginning of the era of democratic welfare capitalism in southern Europe; not least, by making available resources for redistribution in the form of European subsidies and related programmes (Petmesidou, 2011:225; Magone, 2003:13). In this context, the emergence, original composition, and expansion of south European middle classes involved the inclusion of a wider range of socio-professional strata that began accruing social rights and welfare entitlements in clientelistic political environments but under conditions of democratization enhanced by the processes of European integration at the time (see also Ferrera, 2007). The result was a remarkable social transformation that span a period of at least 40 years and brought about the creation of sizeable middle classes in all countries of the region. Based on an income-based estimate³ Bigot and Müller (2011:2) calculated that by 2009 approximately 51% of households in Italy, 50% in Greece, 48% in Portugal and 48% in Spain could be classified as belonging to the middle class, compared to an EU average of 53%.

This transformation is also empirically captured in the substantial increase in social expenditure in southern Europe, one of the key indicators associated with the size of middle class (Bigot and Müller, 2011:9). Figure 1 demonstrates that over the period 1980-2010 all social expenditures in southern European countries were increasing, on a convergence trajectory to the European average. This trend came to an abrupt end with the eruption of the sovereign crisis and the adoption of austerity measures that followed it, the details of which we explore later in the article.

³ Calculations based on data from EU Statistics on Income and Living Conditions (EU-SILC). Middle class members are considered 'those persons living in a household whose disposable income per consumption unit is between 70 and 150% of the general population median. A consumption unit is defined as the square root of the number of persons living in the household' (Bigot and Müller, 2011:3).

Figure 1. Social Expenditure as % of GDP in southern Europe and EU15, 1980-2010



Source: OECD, Social Expenditure dataset

The third fundamental difference between south European and north-western variants of welfare capitalisms concerns the dual role of the family in social reproduction (Bakker and Silvey, 2012). As a collective societal actor that pre-dates capitalist ‘modernization’ the family was integrated in southern European political economies in a dual capacity as both a welfare provider and a politico-economic agent. On the one hand, as Rangone and Solari (2012) demonstrated, employers in southern Europe have been traditionally reluctant to absorb social risks while socio-professional groups were highly averse to universalistic social policies. On the other hand, social insurance systems assumed a male breadwinner model of social reproduction. Employees in the formal labor market⁴ with uninterrupted, full time work biographies, like the (predominantly male) primary earners of households, enjoyed considerable levels of social protection that was often extended to the rest of family members. In the deeply familistic southern European welfare regime (Martin, 2015; Fererra, 2007, 1996; Karamessini, 2007; Moreno, 2006; Leitner, 2003; Trifiletti, 1999; Petmesidou, 2011, 1991) middle classes experienced substantial inequalities in terms of access and levels of family benefits, childcare, unemployment support, healthcare and elderly care provision (see Papadopoulos and Roumpakis, 2012; 2013). Moreover, in contrast to the Nordic welfare capitalisms and France, where social policies facilitated women’s participation to the labor market, or conservative welfare regimes, like in Germany and Austria, where welfare institutions ‘recognised’ women as carers and/or wives (Trifiletti, 1999) social welfare policies in southern Europe were traditionally highly gendered and deeply patriarchal. Women were hardly being given support as carers by welfare institutions (see also Hadjimichalis and Vaiou, 1990; Jimeno and Toharia, 1994) and, rather, were expected to act as the ‘compulsory altruists’ of their households (Symeonidou, 1996:80). As a result, with the exception of Portugal, female participation rates in southern Europe were historically low. When women entered the labor market, they did it in the same terms as men and often ended up working in the informal sector, especially in temporary and atypical employment.

By deploying a distinct set of strategies in its relationship to both the state and the market the family became central in the functioning, and reproduction, of southern European welfare capitalisms. During the decades under review, the typical experience of southern European middle class households involved the primary earners of the family, usually the fathers, experiencing a relatively high degree of employment security but combined with a variegated access to social security rights which will extent to the rest of the (dependent)

⁴ Although these conditions reflect an ‘insider-outsider’ problem in South European labor markets they should also be considered as the only security that previous generations of workers earned within these particular employment regimes (Karamessini, 2007).

family members. Alternatively, unless they were self-employed, primary earners would most likely be involved in, predominantly, small or medium-sized businesses, often family-owned. Middle class households were also more likely to own outright their home, the latter representing not only the key pillar of their socio-economic security but the key site for the redistribution of material and emotional resources among family members (see Allen *et al.*, 2004). In addition, evidence suggests that at least until the mid-nineties southern European middle-class families employed strategies of low economic risk, avoiding over-exposure to debt (see Papadopoulos and Roumpakis, 2015). Other common practices of middle class families would involve investing heavily on their children's education, transferring financial resources and property to family members when they got married or mobilizing contacts for securing employment via the extensive family network, the primary earner's professional network or via a politically motivated clientelistic exchange (see Sotiropoulos, 2004). Indeed, even after the transition to democracy, the social politics of southern Europe remained dominated by relationships of patronage and paternalism, a clientelistic type of electoral contract between the main political parties and the electorate (see also Hopkin, 2012). Votes were often used by families as resources for accessing politico-economic favours while, in turn, favours were deployed as resources for legitimacy and ensuring voters' loyalty by political elites.

The next section discusses how the participation of southern European countries in the EMU challenged the sustainability of their political economies and demonstrates how the capacity of middle classes to pursue their traditional strategies came to be undermined in the years *prior to* the eruption of the sovereign debt crisis.

3. Southern Europe and the European Monetary Union: indebted states with indebted middle classes

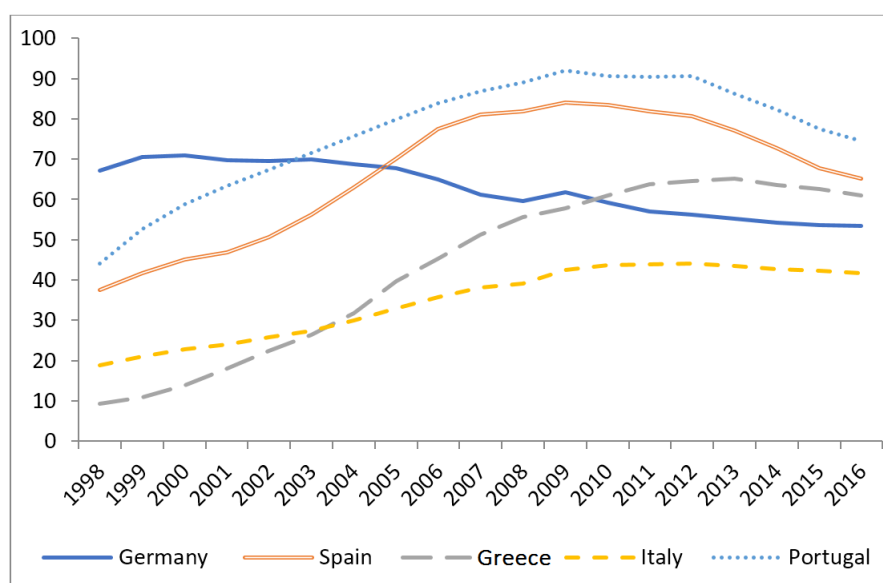
Joining the European Monetary Union (EMU) was a critical juncture for the political economies of southern Europe. Social and economic policies began to be formulated within the EMU framework of (neoliberal) economic governance while capital mobility began empowering investors and businesses to use 'exit threats' across the EU. As the financialization of the economy was accelerating, low-interest rate credit became easily available by the, then, expanding banking sector to both states and households.

According to Streeck (2013) extensive borrowing from international and domestic markets transformed western democratic capitalisms into 'debt states'. This, however, was not a uniform experience in southern Europe. Italy and Greece⁵ had already high levels of public debt prior to joining the EMU while public debts in Portugal and Spain were comparatively low until the eruption of the financial crisis in 2008. What became a uniform experience was the households' increasing reliance on credit, often sanctioned by banks and governments, which led to what Crouch (2009) defined as 'privatised Keynesianism' (see Figure 2). Indeed, following the adoption of Euro, economic growth in southern Europe, and primarily in Spain, Portugal and Greece, was maintained mainly by boosting domestic demand through consumption and investment in construction and real estate (Petmesidou, 2011). This was often seen as evidence of a 'convergence' process that allowed south European middle classes to utilize their access to credit to 'catch-up' with the living standards of other core European middle classes (for a critical review of data see Vaughan-Whitehead *et al.*, 2016). However, as Scharpf (2013) shows, not only did the foundational politico-economic rationale behind the creation of the Eurozone discounted the causes of the structural and institutional differences between the south European periphery and the European core (especially Germany and France) but it also applied a uniform credit supply policy that further exacerbated these asymmetries. This allowed countries with more coordinated market economies, like Germany, to achieve substantial wage restraint and export goods with what was basically an undervalued currency, leaving southern European economies with substantially overvalued real exchange rates and increasing labor costs while exposing households and businesses to unprecedented levels of debt (see Copelovitch, 2016; Streeck, 2015, 2013; Scharpf, 2013).

⁵ However, contrary to the 2008 sovereign debt crisis the (high) Greek public debt in the early 1990s was denominated in Drachma and regulated under Greek Law, allowing governments more room for action.

We regard the growth of private debt, especially household and non-financial corporations' debt, as essential in understanding the origins of the erosion of southern European middle classes (on the impact of debt on the middle class see Scott and Pressman, 2011; on the rise of 'the new culture of indebtedness' among European middle classes see Mau, 2015:65-72). Figure 2 presents trends in the volume of household debt as % of GDP in all south European countries and Germany, during the period 1998-2016. Following the adoption of the Euro, household debt increased steeply in Greece, Spain and Portugal and more moderately in Italy (see Figure 2). It appears that southern European households began replacing their strategies of low economic risk with those of high economic risk, utilizing credit and market means for consumption and investment. In particular, Greek households' exposure to debt witnessed its most rapid increase during the period 2000-2008 at the staggering rate of 559% while the exposure of Italian households followed at almost 200%. Spanish and Portuguese households, already exposed to higher levels of private debt prior to the adoption of Euro, witnessed their debt rate increasing by 156% and 141% respectively. Over the period 1998-2016, Portugal remained the country with the most indebted households in southern Europe. Trends in Germany, used here as a reference country, highlight that the pressure to seek credit to maintain, or improve, living standards was not uniform across the EU. In fact, although debt exposure of German households in 1998 was much higher than in southern Europe, this exposure steadily declined and, by 2016, was well below the levels of Portugal, Spain and Greece. It is also worth highlighting that the increase in debt exposure coincided with the significant drop of household saving rates over the period 1998-2008, indicative of the pressures that households found themselves in the period prior to the eruption of the sovereign debt crisis. According to OECD data, by 2007, savings as percentage of net disposable income was halved in Italy and had collapsed to negative figures in Portugal, Spain and Greece (Papadopoulos and Roumpakis, forthcoming).

Figure 2. Household Debt (% GDP) in southern Europe and Germany, 1998-2016



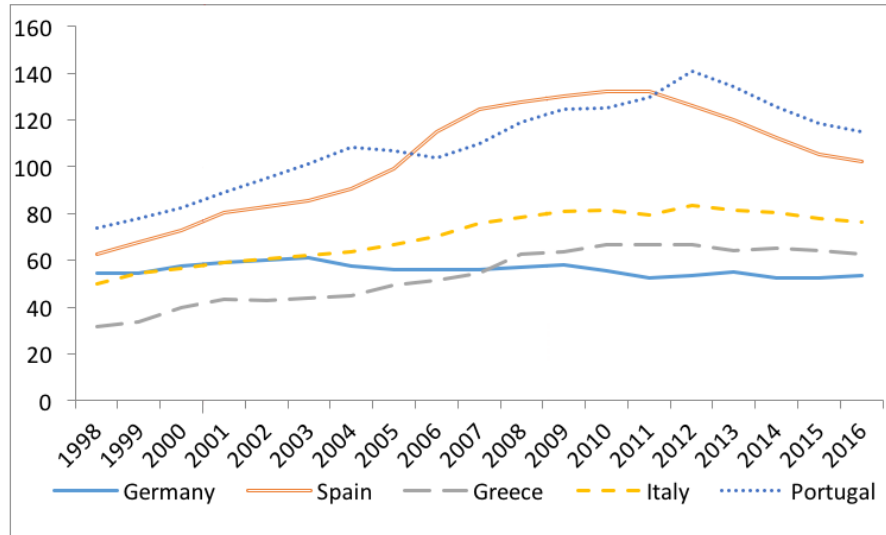
Note: Data refer to households and non-profit institutions

Source: Bank for International Settlements (2017)

Figure 3 presents data on non-financial corporation debt during the period 1998-2016. Evidently, south European non-financial businesses (mainly small and medium-sized enterprises) increased their exposure to credit to finance their investments and maintain their economic competitiveness. Exposure to credit increased more rapidly in Spain and Greece, partly to sustain housing and real estate construction activities. Portugal records the highest rates of non-financial corporate debt, even after the eruption of the sovereign debt crisis, while Italy displays the second lowest debt exposure in southern Europe, partly a reflection of a stronger export sector that was able to access capital without resorting to excessive lending (Quaglia and Royo, 2015). Once more, when we compare how southern European non-financial businesses fared against their German counterparts it is evident that, since the adoption of Euro, German firms have been far more effective at

reducing their debt exposure while maintaining their competitiveness within European and global markets (Collignon and Esposito, 2014).

Figure 3. Non-Financial Corporations Debt (% GDP) GDP in southern Europe and Germany, 1998-2016.



Note: Data refer to non-financial corporations, all sectors, market value, adjusted for breaks.
Source: Bank for International Settlements (2017)

The EMU convergence criteria and the introduction of the Euro were the first attempts to ‘constitutionalize’ the neoliberal economic rationale in the process of European integration (Gill, 2016). They provided the institutional and discursive environment for neo-liberal reforms in the fields of labor market protection, wage policies and welfare provision across all the Eurozone countries. Still, up until the sovereign debt crisis erupted, many of the attempted reforms in southern Europe have met the strenuous opposition, especially in Italy and Greece (Ferrera, 2005). As can be seen in Table 2, during the period 1992-2008, employment protection for those on regular and permanent employment remained more or less intact (with the exception of Spanish labor reforms in 1994). The majority of reforms during this period targeted employment protection for workers in temporary contracts. It is important to note here that south European economies were already creating significant numbers of precarious and informal jobs over this period (often filled by migrant laborers) prior to any pressures for labor market ‘deregulation’ (Papadopoulos and Roumpakis, 2012; Rangone and Solari, 2012). Therefore it can be reasonably assumed that prior to the eruption of the sovereign debt crisis labor market reforms did not weaken significantly existing protections for the core labor force but, rather, opened up the way towards the formalization of precarious jobs in south European labor markets.

Against this background, we maintain that prior to the eruption of the sovereign debt crisis middle classes in south Europe became increasingly exposed to higher levels of debt as consumers and investors, and, as small business owners. While employment protection for the regularly employed (usually the primary household earners) survived the pressures for change, protection for temporary employment was substantially reduced. Participation in the EMU put the old certainties of southern European political economies under pressure. Next, we review how the policy responses to the sovereign debt crisis accelerated these pressures and further eroded the status and welfare of the middle classes that have traditionally sustained the familistic welfare capitalism of southern Europe.

Table 2: Employment Protection in southern Europe, 1992-2013

		Employment protection, individual and collective dismissals (regular contracts)	Employment protection (temporary contracts)
Greece	1992	2.80	4.75
	2001	2.80	4.75
	2008	2.80	2.75
	2013	2.13	2.25
Italy	1992	2.76	4.75
	2001	2.76	3.25
	2008	2.76	2.00
	2013	2.68	2.00
Portugal	1992	4.58	3.38
	2001	4.58	2.81
	2008	4.42	1.94
	2013	3.18	1.81
Spain	1992	3.55	3.75
	2001	2.36	3.25
	2008	2.36	3.00
	2013	2.05	2.56

Note: Scale ranges from 0 (least protection) to 6 (most protection)

Source: OECD Employment Protection Database, Version 1

4. Fiscal consolidation, European integration and the erosion of middle classes in southern Europe

The eruption of sovereign-debt crisis in 2009-10 and the measures taken in its aftermath placed quickly southern European political economies in a trajectory of rapid and deep transformation. The ‘bailout’ agreements for Greece and Portugal as well as the so-called ‘stand-by’ agreements for Italy and Spain, involved the imposition of drastic fiscal consolidation measures and far-reaching reductions in social welfare and employment protection by the ‘Troika’ of lenders (EC, IMF, ECB) (Sacchi, 2015; Theodoropoulou, 2015). Still, the pressures to institutionalize austerity and to deepen structural reforms in southern Europe - including the marketization of welfare and individualization of social risks (see Sciza, this volume) – were also part of a parallel transformation: the fundamental, re-configuration of European economic governance. For the first time, under the pretext of the crisis, EU bodies institutionalized their power to directly intervene in policy areas previously under the jurisdiction of national governments (on this point see Barbier, 2012).

Two reforms of the Stability and Growth Pact (SGP) that took place in quick succession are of particular importance. First, the so-called ‘Six-Pack’ agreement (December 2011), placed wage and collective bargaining agreements under an explicit system of monitoring of wage costs both in public and private sector. Under the discursive guise of improving the quality of economic coordination in the EU, wage policy is now explicitly

considered part of European economic governance (Papadopoulos and Roumpakis, 2015); in fact, ‘the most important adjustment variable for promoting competitiveness’ (Busch et al., 2013, 8). Under the second reform - the Fiscal Compact Treaty - that came into force on 1 January 2013, states’ budgets are required to be balanced or in surplus, with the rules having a permanent, almost constitutional, character (European Council, 2012).

For authors like Gill (2016) these reforms epitomized the next phase in the constitutionalization of neoliberalism in the EU. For Streeck (2015), they are indicative of the European politico-economic elites’ attempt to facilitate the emergence of ‘consolidation states’⁶ in the EU, beginning with southern Europe. This is a new form of state that ‘has managed to institutionalize a political commitment and build a political capacity never to default on its debt, projecting an uncompromising determination to place its obligations to its creditors above all other obligations’ (Streeck, 2015: 11)

The rise of ‘consolidation states’ in southern Europe necessitates fundamental changes in the mode of social reproduction of its political economies and the position of middle classes in them. Under conditions of diminishing national economic sovereignty, domestic political elites began to implement, in various degrees and speeds, fundamental changes in the role of the state, its functions and its politics. They are also pursuing drastic reductions in wages and pensions while radically altering the conditions of social and employment security via cutbacks in social expenditure and increases in taxation. Below, we examine in more detail the significance of these changes for southern European middle classes.

4.1 Employment insecurity and the loss of middle class jobs

Employment protection for both regular and temporary workers was substantially reduced in the aftermath of the sovereign debt crisis (see Table 2). Moreira *et al.* (2015, 205-212) identified no fewer than 76 labor reforms enacted during a period of three years alone (2010-13). Greece was ‘leading’ with 29 reforms, followed by Spain (22), Portugal (17) and Italy (8). Overall, these reforms targeted established socio-economic rights offering protection to workers both in and out of employment, especially households’ primary income earners. They included drastic reductions in the protection against individual and collective dismissals; extensive cuts in severance payments, in minimum wages and in the levels and duration of unemployment benefits; further erosion of protection for the temporary employed; and radical changes of national collective bargaining arrangements by means of formalizing decentralized, firm-based, bargaining (see also Bernaciak and Müller 2013; Degryse *et al.*, 2013; Marginson, 2015). In the aftermath of the sovereign debt crisis, Portugal introduced the most severe reductions in employment security for workers on permanent contracts while Spain reduced even further its already low employment protection (see Table 2 above). It is currently offering the lowest levels of employment security for those on regular contracts in southern Europe. Protection for temporary workers was also further weakened in Spain, Greece and Portugal, the latter replacing Italy as the country with the lowest level of employment protection for temporary workers in southern Europe.

The impact of reforms was exacerbated by the austerity-induced recession and the already prevalent job polarization in southern European labor markets (Vaughan-Whitehead et al., 2016). With total unemployment at 19% and youth unemployment at 46% (Eurostat, 2017) employment security in Spain has been further eroded by the long-term loss of traditional middle class jobs due to “new forms of precarious employment and the deterioration of core services of the welfare state” (Muñoz-De-Bustillo et al., 2016: 531). In Greece, the fall in domestic demand caused by the deepening of austerity-induced recession has resulted in the closure of hundreds of thousands of small and medium-sized businesses (author) that, traditionally, were the backbone of the Greek economy and employment. Having lost more than 25% of its GDP - “the biggest downturn to be experienced by an advanced western economy in peacetime” (The Guardian, 2017) - Greece is now experiencing the highest levels of total unemployment (24%) and youth unemployment (50%) in the EU (Eurostat, 2017). Italian unemployment is also considerably high, standing at 12%, while youth unemployment stands at 37% (Eurostat, 2017). However, the substantial regional disparities between centre-north and south have led commentators to talk about the emergence of an ‘even more divided Italy’, ten years after the crisis (Brico, 2017:1). In their study

⁶ In fact Streeck (2015) goes as far as characterizing the whole process as the ‘rise of European Consolidation State’ (see also Feher, 2016).

of the erosion of Italian middle class Simonazzi and Barbieri (2016) concluded that, while wages have remained stagnant, many typical middle class jobs in Italy are either disappearing or have become extremely precarious. Similar labor market trends for the middle classes have been recorded in Portugal (Gonzalez et al., 2016) where by January 2017 total unemployment stood at 10% and youth unemployment at 25% (Eurostat, 2017).

4.2 Inequality, income loss and the impact of austerity

Austerity policies in southern Europe meant not only reductions in public expenditures, wages and pensions but also substantial increases in taxation, especially of those who Schäfer and Streeck (2013, 18) named as the ‘immobile assets - i.e. consumers and low-income earners’. As can be seen in Figure 4 the combined impact of these measures was negative for all income groups of southern Europeans. All income deciles recorded losses of income over the period 2010-2015 and in all countries these losses hit disproportionately the very poor. However, when examined in more detail, the impact of austerity on middle classes’ incomes was not uniform across the region.

Figure 4. Reductions in disposable income (%) by income decile groups in southern Europe, 2010-2015



Note: Data for 10th decile not available

Source: Authors' calculations based on Eurostat data (EU-SILC surveys)

In Italy, losses in disposable income were very substantial for the lower income deciles (exceeding 9% for the 1st decile) than for the middle class ones (conventionally from 3rd up to 9th decile). This highlights the differential impact of austerity measures and corroborates Simonazzi and Barbieri's (2016) findings of increased inequality in Italy during the crisis. In Greece, households witnessed massive income losses, from 35% upwards, in all income deciles as a result of wage and pension reductions and increased taxation especially on

small property. Although there appears to be minimal variation between the middle class deciles in terms of the relative size of the (large) losses, these seem to be smaller for the higher income deciles. In Spain, although overall losses were much lower in comparison to Greece, they appear to be more unequally distributed between deciles, with fewer losses for the higher income deciles, including the middle class ones. In Portugal, the picture is more varied, with much higher losses in the bottom two, sixth and ninth deciles. Our findings corroborate the results of other studies and reports on the impact of austerity on middle class incomes in Portugal (Gonzalez et al. 2016; Wise, 2015) which showed that a combination of wage cuts, tax increases, and longer working hours led to increased income inequality and substantial income losses among middle income groups.

5. Concluding reflections: middle classes and the social politics of austerity

Our article examined the position of middle classes in the reproduction of southern European welfare capitalisms in the light of the sovereign debt crisis. The evidence we analysed suggest that the process of middle class erosion, already underway prior to the crisis, accelerated in the aftermath of the crisis. The emergence of ‘consolidation states’ (Streeck, 2015) in southern Europe destabilized further the security pillars of southern European welfare capitalisms (e.g. employment protection of family’s primary earner, home ownership and small property, adequate pensions). Combined with high unemployment (resulting from years of austerity-induced recession), chronic job polarization, increasing inequality, and high private debt exposure, these processes have fundamentally undermined the traditional role of middle classes in the social reproduction of southern European welfare capitalisms.

However, the transition to ‘consolidation states’ is not uniform, smooth or uncontested. As the negative impact of recession and austerity deepened (Verney and Bosco, 2013) political frustration found expression in a variety of forms and practices (Gerbaudo, 2017; Luengo, 2016). The rise of the radical left coalition of SYRIZA in power in Greece (but also the increase in electoral popularity of the neo-nazi ‘Golden Dawn’ party), the electoral successes of Podemos’ in Spain and the Five Star Movement-cum-party in Italy, shook the political status quo both domestically and in the EU. Even in Portugal, where mainstream parties still dominate the domestic political scene, support for the anti-austerity radical Left Bloc and the Communist Party rose exponentially since 2015 general elections. Indeed, southern European middle classes are becoming politically more polarized and electorally less ‘predictable’. Traditional electoral coalitions and party formations have either collapsed or are in crisis. At the same time the trustworthiness, if not outright legitimacy, of European and national institutions are severely challenged (Matthijs, 2014). The new social politics of austerity are radically transforming southern European regimes altering the size and role that middle classes historically played in their socio-political reproduction. Potentially, this can lead to a deeper contestation of the emergent European order of constitutionalized neo-liberalism (Gill, 2016, Roumpakis and Papadopoulos, 2017), with fundamental implications for the future of European Union itself.

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